

VZCZCXRO6619
PP RUEHMA RUEHPA
DE RUEHAR #0353/01 0770928
ZNR UUUUU ZZH
P 170928Z MAR 08
FM AMEMBASSY ACCRA
TO RUEHC/SECSTATE WASHDC PRIORITY 6274
RUEHZK/ECOWAS COLLECTIVE
RHEBAAA/DEPT OF ENERGY WASHDC

UNCLAS SECTION 01 OF 03 ACCRA 000353

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SENSITIVE

DEPT FOR AF/FO:TMOSS, AF/W, AF/ EPS

E.O. 12958: N/A
TAGS: [PGOV](#) [ENRG](#) [EPET](#) [PREL](#) [ECON](#) [EFIN](#) [GH](#)
SUBJECT: GHANA: PLANNING FOR OIL AND GAS REVENUE

REF: 2007 ACCRA 1440

11. (SBU) Summary: On February 25 and 26, the Government of Ghana (GOG) hosted the National Forum on Oil and Gas Development in Accra, followed on February 27, 28 and 29 by the International Summit Workshop on Oil Sector Development. The five days of discussion and consultation were aimed at launching efforts to draft a comprehensive oil and gas policy along with a master plan for development of the sector. At present, Ghana's off-shore find has been confirmed by two test wells; the full extent of Ghana's reserves is not known but could eventually bring significant revenue to Ghana's budget. Ghana's current legal and regulatory structure for the hydrocarbon sector is weak and outdated. Oil revenues will present significant challenges for Ghana in terms of revenue management, expenditure control, and institutional capacity. The conference touched on the major financial, fiscal and governance challenges and risks associated with oil revenue and provided a good basis from which to develop a policy and accompanying master plan. The challenge now lies with the GOG to address all the critical areas within the six month time frame they have allotted themselves. End Summary.

12. (SBU) National Forum and Workshop: The first two days comprised a national forum to "benefit from the lessons learned by other countries and involve local and international experts to share experiences." President John Kufuor opened Forum and Norway's Minister of Environment and International Development, Erik Solheim, provided opening comments. There were more than 200 participants, including ranking traditional chiefs, representatives of Ghana's civil society, and members of Parliament, members of the business community, senior government staff, donor representatives, and international experts on various oil and gas issues. The objective of the two day national forum was to bring together stakeholders to chart the way forward in: 1) turning oil and gas wealth into sustainable and equitable development; 2) entrenching transparency and stakeholder engagement; 3) organizing effective management of the oil and gas sector; and 4) safeguarding security and the environment. A three day workshop followed the two day forum. The workshop was designed to work through critical issues raised in the forum, though its focus was slightly different. Participation in the workshop was limited to fifty civil servants accompanied by international experts. It was organized around four themes: 1) resource management; 2) revenue management; 3) local content and infrastructure; and 4) environmental management and security.

13. (SBU) Oil discovery/Parties: In June 2007, Dallas-based Kosmos Energy LLC announced that a significant find had been made off the coast of Ghana. In August 2007, a UK listed firm confirmed the field with a second, similar find nearby. The two finds are located about 30 miles offshore from Cape Three Points, not far from the international border demarking Ghana's territorial waters from that of Cote d'Ivoire's. The field, now known as the Jubilee field, constitutes Ghana's most significant and visible deposit of oil.

14. (SBU) Oil discovery/Scope: Both finds confirm an extensive

sedimentary hydrocarbon trap located in Cretaceous zone, bearing distinct geological similarity to the highly productive zone discovered offshore from Equatorial Guinea in the 1990s by Triton Energy - a firm later acquired by Kosmos Energy LLC. Ghana National Petroleum Corporation (GNPC) geophysicists who spoke off the record with U.S. Mission staff expect the Jubilee field to eventually comprise 100 - 200 producing wells and, once developed, anticipate the field's production rate to level off at approximately 200,000 barrels per day. The GNPC geological staff who originally identified and began promoting this drilling prospect a decade ago have access to 2-D and 3-D seismic data for much of Ghana's offshore territorial waters. They estimate that among the dozens of other promising off-shore seismic prospects, exploration efforts may well confirm as many as five productive offshore fields on the scale of the current Jubilee field.

15. (SBU) Role of Ghana National Petroleum Corporation: In 1983 and 1984 the Provisional National Defence Council, under President Jerry Rawlings, adopted laws number 64 and 84 that provide the current legal framework for oil operations in Ghana. While taxation and other aspects of the laws are forward looking and constructive, the current laws contain critical flaws regarding the structure of the oil sector. GNPC, a state-owned company, was given exclusive responsibilities for commercial petroleum operations as well as regulatory and enforcement responsibilities for the hydrocarbon sector. This design results in an ongoing operational conflict of interest for GNPC, as GNPC is required to serve as its own regulator. This structural flaw compromises GNPC's international joint venture partners. GNPC serves as joint venture partner for all foreign-owned oil companies operating in Ghana, as well as the regulator and enforcement agency overseeing the activities of the international operating companies. Modern hydrocarbon legislation typically segregates the commercial/operational role of a national oil company from the regulatory/enforcement responsibilities

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delegated by the government to a ministry in charge of energy.

16. (SBU) Revenue Estimates: Production estimates on the current field suggest an output of 200,000 barrels of oil per day. Given the low 50% government take negotiated by GNPC and current prices of \$100 per barrel, this field could yield as much as \$3.6 billion of additional revenues to the GOG's annual budget once production begins. This amount is roughly equivalent to the combination of current donor assistance and the government's current account deficit. Donor assistance is likely to decline as oil revenue comes on line. [Note: The current contract was negotiated prior to the find and hence the relatively low government take of 50%. The industry average is a government take of 70-80%, but this varies greatly due to the risk and cost involved in exploration and production. End Note.]

17. (SBU) Revenue Management: Despite Ghana's considerable accomplishments in establishing macro-economic stability and improving budget management, Ghana faces daunting challenges to ensure that oil revenue is managed in a manner that will benefit current and future generations. Several speakers noted that the choices and trade-offs that Ghana will need to make are considerably more difficult than for countries such as Norway that began reaping oil revenue after institutional capacity was well-entrenched and basic needs of the people met. Ghana, on the other hand, remains a young democracy with large trade and fiscal deficits and extensive infrastructure and development needs. Exercising fiscal discipline and striking a balance between current and future spending will be difficult, especially if oil prices remain as at record highs.

18. (SBU) Monetary Risks: Speakers at the Forum and workshop outlined the risk of currency appreciation that could result from large dollar inflows from oil sales. An overvalued currency could undermine the competitiveness of other sectors in Ghana's economy, including its agricultural and other non-oil exports, and discourage new investment in other sectors critical to economic diversification. Typically, natural resource exporting economies staunch excessive currency appreciation by harbouring excess petro-dollars off-shore in a revenue stabilization fund. These petro-dollars are then converted into local currency and brought

back into the local economy through the central bank only in the amounts immediately needed by the Ministry of Finance to meet current expenditure needs. Creation of a revenue stabilization fund was suggested in the forum by USAID, the IMF, and others and GoG officials are receptive to the idea. [Note: A USAID advisor to the Ministry of Finance is drafting a revenue stabilization fund proposal for approval by the Minister of Finance, at the Minister's request. End note.]

¶9. (SBU) Resource Management: The Ministry of Energy was not well represented in the Forum or Workshop, and there was little substantive discussion regarding resource management during the five days, despite significant time allocated to the subject. Serious discussion of how to best manage and protect the state's natural resource interests as separate from GNPC's operational interests, did not arise. This includes the role that a regulator would play in protecting the reserve and ensuring it is managed in a way that would maximize the GOG's recovery of oil and the sharing of information generated from exploration activities with the rest of the industry to encourage broader interest and create a more competitive environment. Matters concerning vision, objectives or plans to assure proper management of the state's resource interests were not addressed.

¶10. (SBU) Environment: The environment also received less focus with discussions of environmental issues mixed with those on safety and security. There was some discussion of broader impact on Ghana's marine resources, but this was limited with the focus being on environmental impacts during exploration and production and requirements for environmental permitting. Discussions regarding the oil industry's potential impact on Ghana's fisheries seem more concerned about remuneration for lost fisheries than exploring ways to ensure Ghana's fisheries are safeguarded. Some speakers during the conference indicated that accidental oil spills and discharges were to be expected while others emphasized that all accidents could be avoided through sound planning and management. [Note: This is a critical difference in outlook that needs to be watched closely, especially in light of Ghana's limited ability and willingness to enforce its fairly comprehensive environmental code. The World Bank has estimated the cost of poor natural resource management to Ghana's economy to be about \$850 million annually. End note.]

¶11. (SBU) Local Content: Discussions on local content attracted tremendous attention. While presentations emphasized the need to be strategic and the importance of ensuring that local participants had adequate capacity to participate constructively and effectively, local content proponents called for local content across the board. There was little response to an IMF Division Chief's comment that targeting increased employment in the oil sector cuts against the

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broader need to diversify the economy away from the oil sector, to minimize elevated economic vulnerability shocks from the sector, and excessive dependency on the oil sector. The discussion tapped into wells of nationalism and a desire to avoid following the examples of the gold and cocoa sectors in which little value is added in Ghana.

¶12. (SBU) Security: Senior Ghanaian Navy officials publicly voiced concern regarding the Navy's current capacity to protect off-shore oil installations. In private conversations with Mission staff, they expressed willingness to discuss training and other exercises with U.S. military counterparts to enhance the Navy's capacities to protect offshore installations. These and other Ghanaian officials seemed largely unaware of the extensive use of shaped/formed explosives in the modern production of oil and gas. It was not apparent that effective controls govern the importation, storage, distribution or utilization of these multi-use, tactical explosives, once inside Ghana's territorial boundaries.

¶13. (SBU) Next Steps: With a presidential election later this year, the GOG has set an aggressive timetable for arriving at a hydrocarbon policy that will be presented to the Cabinet and Parliament. Norway remains the lead donor supporting GOG in this effort with the agreement that DFID will coordinate locally due to Norway's current lack of diplomatic or development agency presence in Ghana. USAID/Ghana is assessing funding and contractual

mechanisms under which it might place a resident hydrocarbon revenue policy advisor inside the Ministry of Finance and is similarly evaluating whether and how to place a resident energy policy advisor with the government to participate in broader policy discussions regarding the structure and organization of Ghana's oil sector. USAID will coordinate any technical assistance/policy efforts with the IMF and the World Bank, as well as with other bilateral donors active in Ghana's hydrocarbon policy space and may seek additional resources to engage in this sector.

¶14. (SBU) Comment: The GoG at the highest levels has acknowledged that oil revenue will bring considerable challenges. However, the depth and breadth of those challenges may not be fully recognized. The fiscal and financial challenges, while not easy to address, seem to attract the most serious attention. The Ministry of Finance is forward leaning with regard to establishing a revenue stabilization fund to protect the currency and stabilize spending levels and recognizes that the government's capacity to address the revenue management responsibilities will require deep political will and assistance from development partners. Efforts by the donor community and GOG officials prior to significant oil revenues hitting government books will largely determine whether Ghana has the institutional capacity in place to manage these elevated revenue and expenditure management responsibilities. Other matters such as environment, security and resource management regulation seem to be less fully recognized. Serious attention to efforts to continue to diversify the economy and expand non-traditional exports is also at risk. This concern was voiced during the conference but gained little traction. Ghanaian expectations of significant job creation may also need to be tempered given the capital intensive, specialized nature of offshore oil and gas production. Ghana must be strategic and ensure that they play to their comparative advantages and develop industries that can be internationally competitive.

In addition, Ghana does not yet recognize a need to protect its hydrocarbon resource management interests through a regulatory regime separate from that which GNPC's performs in its dual role as a commercial operator/regulator. Long-term versus short-term tradeoffs concerning the state's resource management responsibilities must be resolved in key policy areas such as: geophysical data sharing and information management; resource recovery techniques; exploration; and production processes. Finally, the relative lack of civil society participation in the Forum and Workshop raises concern. While the government promised that the forum was the beginning of a process of stakeholder engagement, civil society participation in the forum, which was by invitation, was limited. Civil society engagement is critical not only to ensure appropriate transparency but to bring greater attention to some of the relatively neglected issues. End Comment.

BRIDGEWATER